

CRAWFORD AUSABLE SCHOOL DISTRICT

GRAYLING, MICHIGAN

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

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August 22, 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Crawford AuSable School District, Grayling, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the school districts' basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Crawford AuSable School Districts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Crawford AuSable School District, Grayling, Michigan, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2007, on our consideration of Crawford AuSable School Districts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crawford AuSable School District, Grayling, Michigan's basic financial statements. The combining financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

Crawford AuSable School District, a K-12 school district located in Grayling, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Crawford Ausable School Districts administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds which include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

B. Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the District's financial position. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The District's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as all debt of the District.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30:

| Assets | <u>2007</u> | <u>2006</u> |
|---|-----------------------------|----------------------------|
| Current Assets | \$ 4,577,161 | \$ 4,222,088 |
| Non Current Assets | | |
| Capital Assets | \$33,065,572 | \$32,567,505 |
| Less Accumulated Depreciation | <u>(10,985,763)</u> | <u>(10,561,231)</u> |
| Total Non Current Assets | <u>22,079,809</u> | <u>22,006,274</u> |
| Total Assets | <u><u>\$ 26,656,970</u></u> | <u><u>\$26,228,362</u></u> |
| Liabilities | | |
| Current Liabilities | \$ 2,668,819 | \$ 2,211,552 |
| Non Current Liabilities | <u>19,239,516</u> | <u>20,294,103</u> |
| Total Liabilities | <u>21,908,335</u> | <u>22,505,655</u> |
| Net Assets | | |
| Invested in Capital Assets Net of Related Debt | 2,811,945 | 1,560,272 |
| Restricted for Debt Service | 164,549 | 212,438 |
| Unrestricted | <u>1,772,141</u> | <u>1,949,997</u> |
| Total Net Assets | <u>4,748,635</u> | <u>3,722,707</u> |
| Total Liabilities and Net Assets | <u><u>\$ 26,656,970</u></u> | <u><u>\$26,228,362</u></u> |

D. Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$1,025,928. A few of the more significant factors affecting net assets during the year are discussed below:

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2007, \$440,176 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, \$537,471 of expenditures was capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

3. Payment of Long-Term Liabilities

During the year ending June 30, 2007, the District reduced its long-term liabilities by \$1,181,816.

E. Results of Operations

For the years ended June 30, the results of operations, on a District-wide basis, were:

| | 2007 | | 2006 | |
|-------------------------|--------------|------------|--------------|------------|
| | Amount | % of Total | Amount | % of Total |
| General Revenues | | | | |
| Property Taxes | \$ 6,880,725 | 35.67% | \$ 6,781,604 | 35.91% |
| Investment Earnings | 190,917 | 0.99% | 110,712 | 0.59% |
| State Sources | 8,340,703 | 43.24% | 8,300,148 | 43.95% |
| Gain on Sale of Assets | 46,721 | 0.24% | 203,661 | 1.08% |
| Other | 247,398 | 1.28% | 780 | 0.00% |
| Total General Revenues | 15,706,464 | 81.42% | 15,396,905 | 81.53% |

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

| | 2007 | | 2006 | |
|----------------------------|----------------------|----------------|----------------------|----------------|
| | Amount | % of Total | Amount | % of Total |
| Program Revenues | | | | |
| Charges for Services | \$ 596,553 | 3.09% | \$ 541,113 | 2.86% |
| Operating Grants | 2,988,483 | 15.49% | 2,947,463 | 15.61% |
| Total Program Revenues | 3,585,036 | 18.58% | 3,488,576 | 18.47% |
| Total Revenues | <u>\$ 19,291,500</u> | <u>100.00%</u> | <u>\$ 18,885,481</u> | <u>100.00%</u> |
| Expenses | | | | |
| Instruction | \$ 9,591,178 | 52.51% | \$ 9,407,488 | 50.12% |
| Supporting Services | 6,141,711 | 33.62% | 6,355,306 | 33.86% |
| Food Service Activities | 923,427 | 5.06% | 899,495 | 4.79% |
| Athletic Activities | 287,092 | 1.57% | 285,129 | 1.52% |
| Community Services | 8,635 | 0.04% | 11,859 | 0.06% |
| Concessions | 19,507 | 0.11% | 25,094 | 0.13% |
| Interest on Long-term Debt | 852,955 | 4.67% | 844,566 | 4.50% |
| Other Transactions | 891 | 0.01% | 79,239 | 0.42% |
| Unallocated Depreciation | 440,176 | 2.41% | 862,527 | 4.60% |
| Total Expenses | <u>18,265,572</u> | <u>100.00%</u> | <u>18,770,703</u> | <u>100.00%</u> |
| Change in Net Assets | <u>\$ 1,025,928</u> | | <u>\$ 114,778</u> | |

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2006-2007 fiscal year, the District levied \$4,941,431 in non-homestead property taxes.

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

The following table summarizes the property tax levies for operations and debt for the past three years:

| <u>Fiscal Year</u> | <u>Tax Levy</u> |
|--------------------|-----------------|
| 2006-2007 | \$ 6,880,725 |
| 2005-2006 | 6,781,604 |
| 2004-2005 | 6,493,687 |

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2006-2007 fiscal year, the District received \$7,085 per student FTE.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past three fiscal years:

| <u>Fiscal Year</u> | <u>Blended Student FTE</u> |
|--------------------|--------------------------------|
| 2006-2007 | 1,907 |
| 2005-2006 | 1,988 |
| 2004-2005 | 2,000 |

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2007, federal, state, and other grants accounted for \$2,988,483.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
|--------------------|----------------------------|-------------------------|---------------------|
| Total Revenues | <u>\$15,595,752</u> | <u>\$16,134,652</u> | <u>\$16,198,848</u> |
| Total Expenditures | <u>\$15,720,483</u> | <u>\$16,083,448</u> | <u>\$15,821,936</u> |

The total revenues variance of \$64,196 is 0.40% of total budgeted revenues and the total expenditures variance was \$261,512, which is 1.63% of total budgeted expenditures.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2007, the District has \$33,065,572 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$537,471 over the prior fiscal year. Depreciation expense for the year amounted to \$440,176, bringing the accumulated depreciation to \$10,985,763 as of June 30, 2007.

2. Long-Term Debt

At June 30, 2007, the District had \$19,517,900 in bonded debt outstanding.

Also, the District had \$1,452,384 of accrued expenses at June 30, 2007, which was made up of early retirement incentive payments and accumulated sick pay liability. These long-term accrued expenses were decreased by \$24,237 during the year due to changes in estimated sick pay liability and early retirement incentives.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health for the future:

With the current economic condition in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2007-2008 fiscal year. It is statistically difficult to calculate future declining enrollment due to an increasing number of students moving out of the district. The continued declining enrollment will pose a challenge to the District to maintain structural balance while continuing with its educational programming.

The foundation allowance uncertainty affects the wage and benefit packages offered to district employees through union contracts. The District will continue to negotiate one year contracts until

CRAWFORD AUSABLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

the State's economic condition improves. It is difficult to plan for long range financial stability with one year employee union contracts and significant increases in rates for health care and retirement.

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program and Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting in No Child Left Behind Act, adequate yearly progress of students becomes very important. This increase in assessments of a student will all need to be funded by the district.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Crawford Ausable School District, 1135 N Old 27, Grayling, Michigan 49738.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS

CURRENT ASSETS

| | |
|----------------------------|------------------|
| Cash | \$ 2,549,981 |
| Taxes Receivable | 9,515 |
| Accounts Receivable | 296,242 |
| Due from Other Governments | 1,566,804 |
| Inventories | 88,812 |
| Investments | 11,163 |
| Prepaid Expenditures | 54,644 |
| Total Current Assets | <u>4,577,161</u> |

NON CURRENT ASSETS

| | |
|-------------------------------|-----------------------------|
| Capital Assets | 33,065,572 |
| Less Accumulated Depreciation | <u>(10,985,763)</u> |
| Total Non Current Assets | <u>22,079,809</u> |
| TOTAL ASSETS | <u><u>\$ 26,656,970</u></u> |

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

| | |
|--|------------------|
| Accounts Payable | \$ 392,507 |
| Accrued Expenses | 133,976 |
| Accrued Interest Payable | 132,804 |
| Salaries Payable | 524,760 |
| Deferred Revenue | 4,040 |
| Current Portion of Non Current Liabilities | <u>1,480,732</u> |
| Total Current Liabilities | <u>2,668,819</u> |

NON CURRENT LIABILITIES

| | |
|---|--------------------|
| Bonds Payable (Net of Deferred Charges) | 19,267,864 |
| Early Retirement Incentives | 1,325,155 |
| Compensated Absences | 127,229 |
| Less Current Portion of Non Current Liabilities | <u>(1,480,732)</u> |
| Total Non Current Liabilities | <u>19,239,516</u> |
| Total Liabilities | <u>21,908,335</u> |

NET ASSETS

| | |
|--|-----------------------------|
| Invested in Capital Assets Net of Related Debt | 2,811,945 |
| Restricted for Debt Service | 164,549 |
| Unrestricted | <u>1,772,141</u> |
| Total Net Assets | <u>4,748,635</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 26,656,970</u></u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | GOVERNMENTAL ACTIVITIES |
|---|----------------------|-------------------------|---------------------|-------------------|---|
| | | CHARGES FOR SERVICES | OPERATING GRANTS | CAPITAL GRANTS | NET (EXPENSE) |
| | | | | | REVENUE AND CHANGES IN NET ASSETS |
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | | |
| Instruction | \$ 9,591,178 | \$ 48,137 | \$ 2,382,770 | \$ 0 | \$ (7,160,271) |
| Supporting Services | 6,141,711 | 60,867 | 75,756 | 0 | (6,005,088) |
| Community Services | 8,635 | 0 | 0 | 0 | (8,635) |
| Food Service Activities | 923,427 | 378,122 | 529,957 | 0 | (15,348) |
| Athletic Activities | 287,092 | 88,910 | 0 | 0 | (198,182) |
| Concessions | 19,507 | 20,517 | 0 | 0 | 1,010 |
| Interest on Long Term Debt | 852,955 | 0 | 0 | 0 | (852,955) |
| Other Transactions | 891 | 0 | 0 | 0 | (891) |
| Unallocated Depreciation | 440,176 | 0 | 0 | 0 | (440,176) |
| Total Governmental Activities | <u>\$ 18,265,572</u> | <u>\$ 596,553</u> | <u>\$ 2,988,483</u> | <u>\$ 0</u> | <u>(14,680,536)</u> |
| <u>GENERAL REVENUES</u> | | | | | |
| Property Taxes -Levied for General Purposes | | | | | 4,941,431 |
| Property Taxes -Levied for Debt Service | | | | | 1,939,294 |
| Investment Earnings | | | | | 190,917 |
| State Sources | | | | | 8,340,703 |
| Gain on Sale of Fixed Assets | | | | | 46,721 |
| Other | | | | | 247,398 |
| Total General Revenues | | | | | <u>15,706,464</u> |
| Change in Net Assets | | | | | 1,025,928 |
| NET ASSETS - Beginning of Year | | | | | <u>3,722,707</u> |
| NET ASSETS - End of Year | | | | | \$ 4,748,635 |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2007

| | 2006 | | |
|--|-----------------|----------------------|---------------------------|
| | GENERAL FUND | FOOD SERVICE FUND | BUILDING AND SITE FUND |
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$1,699,967 | \$ 12,930 | \$ 550,818 |
| Taxes Receivable | 6,910 | 0 | 0 |
| Accounts Receivable | 254,952 | 41,290 | 0 |
| Due from Other Governments | 1,492,129 | 74,675 | 0 |
| Due from Other Funds | 103,398 | 0 | 0 |
| Inventories | 71,154 | 17,658 | 0 |
| Investments | 11,163 | 0 | 0 |
| Prepaid Expenditures | 54,644 | 0 | 0 |
| | | | |
| TOTAL ASSETS | \$3,694,317 | \$ 146,553 | \$ 550,818 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$ 392,507 | \$ 0 | \$ 0 |
| Accrued Expenses | 132,471 | 1,505 | 0 |
| Salaries Payable | 519,595 | 5,165 | 0 |
| Due to Other Funds | 0 | 121,014 | 0 |
| Deferred Revenue | 871 | 3,169 | 0 |
| | | | |
| Total Liabilities | 1,045,444 | 130,853 | 0 |
| <u>FUND BALANCE</u> | | | |
| Reserved for Prepaid Expenditures | 54,644 | 0 | 0 |
| Reserved for Inventory | 71,154 | 17,658 | 0 |
| Reserved for Debt Service | 0 | 0 | 0 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 2,523,075 | 0 | 0 |
| Unreserved, Designated, Reported in: | | | |
| Special Revenue Funds (Deficit) | 0 | (1,958) | 0 |
| Capital Projects Fund | 0 | 0 | 550,818 |
| | | | |
| Total Fund Balances | 2,648,873 | 15,700 | 550,818 |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | \$3,694,317 | \$ 146,553 | \$ 550,818 |

The notes to the financial statements are an integral part of this statement.

| OTHER NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|--------------------------------|
| \$ 286,266 | \$ 2,549,981 |
| 2,605 | 9,515 |
| 0 | 296,242 |
| 0 | 1,566,804 |
| 70,709 | 174,107 |
| 0 | 88,812 |
| 0 | 11,163 |
| 0 | 54,644 |
| <u>\$ 359,580</u> | <u>\$ 4,751,268</u> |

| | |
|---------------|------------------|
| \$ 0 | \$ 392,507 |
| 0 | 133,976 |
| 0 | 524,760 |
| 53,093 | 174,107 |
| 0 | 4,040 |
| <u>53,093</u> | <u>1,229,390</u> |

| | |
|-------------------|---------------------|
| 0 | 54,644 |
| 0 | 88,812 |
| 297,353 | 297,353 |
| 0 | 2,523,075 |
| 9,134 | 7,176 |
| 0 | 550,818 |
| <u>306,487</u> | <u>3,521,878</u> |
| <u>\$ 359,580</u> | <u>\$ 4,751,268</u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2007

| | | |
|--|---------------------|----------------------------|
| Total Governmental Fund Balances | | \$ 3,521,878 |
| Amounts reported for governmental activities in the statement of net assets different because: | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | | |
| The cost of the capital assets is | \$33,065,572 | |
| Accumulated depreciation is | <u>(10,985,763)</u> | 22,079,809 |
| Long term liabilities are not due and payable in the current period and are not reported in the funds | | |
| Bonds Payable | | (19,517,900) |
| Deferred Charges Net of Amortization | | 250,036 |
| Early Retirement Incentives | | (1,325,155) |
| Compensated Absences | | (127,229) |
| Accrued interest is not included as a liability in governmental funds, it is recorded when paid | | <u>(132,804)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | | <u><u>\$ 4,748,635</u></u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

| | GENERAL FUND | FOOD SERVICE FUND | 2006 BUILDING AND SITE FUND |
|--|-----------------|----------------------|--------------------------------------|
| <u>REVENUES</u> | | | |
| Local Sources | \$ 5,359,393 | \$ 379,590 | \$ 42,862 |
| Intermediate Sources | 49,293 | 0 | 0 |
| State Sources | 9,653,952 | 57,025 | 0 |
| Federal Sources | 1,136,210 | 472,932 | 0 |
| Total Revenues | 16,198,848 | 909,547 | 42,862 |
| <u>EXPENDITURES</u> | | | |
| Instruction | 9,596,045 | 0 | 0 |
| Supporting Services | 6,217,256 | 0 | 0 |
| Community Services | 8,635 | 0 | 0 |
| Food Service Activities | 0 | 933,427 | 0 |
| Athletic Activities | 0 | 0 | 0 |
| Concessions | 0 | 0 | 0 |
| Capital Outlay | 0 | 0 | 471,295 |
| Debt Service | | | |
| Principal | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Total Expenditures | 15,821,936 | 933,427 | 471,295 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 376,912 | (23,880) | (428,433) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Transfers In | 0 | 56,230 | 0 |
| Transfers Out | (226,344) | 0 | 0 |
| Sale of Fixed Assets | 70,481 | 0 | 0 |
| Total Other Financing Sources (Uses) | (155,863) | 56,230 | 0 |
| Net Change in Fund Balance | 221,049 | 32,350 | (428,433) |
| <u>FUND BALANCE</u> - Beginning of Year (Deficit) | 2,427,824 | (16,650) | 979,251 |
| <u>FUND BALANCE</u> - End of Year | \$ 2,648,873 | \$ 15,700 | \$ 550,818 |

The notes to the financial statements are an integral part of this statement.

| OTHER NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|--------------------------------|
| \$ 2,093,522 | \$ 7,875,367 |
| 0 | 49,293 |
| 0 | 9,710,977 |
| 0 | 1,609,142 |
| <u>2,093,522</u> | <u>19,244,779</u> |
| 0 | 9,596,045 |
| 0 | 6,217,256 |
| 0 | 8,635 |
| 0 | 933,427 |
| 287,092 | 287,092 |
| 19,507 | 19,507 |
| 0 | 471,295 |
| 1,205,000 | 1,205,000 |
| 825,534 | 825,534 |
| 891 | 891 |
| <u>2,338,024</u> | <u>19,564,682</u> |
| <u>(244,502)</u> | <u>(319,903)</u> |
| 170,894 | 227,124 |
| (780) | (227,124) |
| 0 | 70,481 |
| <u>170,114</u> | <u>70,481</u> |
| (74,388) | (249,422) |
| <u>380,875</u> | <u>3,771,300</u> |
| <u>\$ 306,487</u> | <u>\$ 3,521,878</u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

| | |
|--|--------------|
| Net change in Fund Balances Total Governmental Funds | \$ (249,422) |
|--|--------------|

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|-----------|
| Depreciation Expense | (440,176) |
| Capital Outlay | 537,471 |

In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the capital assets sold net of accumulated depreciation.

(23,760)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

| | |
|--|-----------|
| Accrued Interest Payable - Beginning of Year | 132,245 |
| Accrued Interest Payable - End of Year | (132,804) |

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The net changes in long term liabilities are:

| | |
|----------------------------------|-----------|
| Repayment of Bond Principal | 1,205,000 |
| Amortization of Deferred Charges | (26,862) |

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

| | |
|--|-------------|
| Early Retirement Incentive - Beginning of the Year | 1,358,625 |
| Early Retirement Incentive - End of the Year | (1,325,155) |
| Accumulated Sick Pay - Beginning of Year | 117,995 |
| Accumulated Sick Pay - End of Year | (127,229) |

| | |
|---|---------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 1,025,928</u> |
|---|---------------------|

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

| | | PRIVATE PURPOSE TRUST FUNDS | AGENCY FUNDS |
|----------------------------------|-------------------------------------|--------------------------------------|-------------------|
| | <u>ASSETS</u> | | |
| Cash and Cash Equivalents | | <u>\$ 5,342</u> | <u>\$ 234,116</u> |
| | | | |
| | <u>LIABILITIES AND FUND BALANCE</u> | | |
| | | | |
| <u>LIABILITIES</u> | | | |
| Due to Groups and Organizations | | \$ 0 | \$ 234,116 |
| | | | |
| <u>NET ASSETS</u> | | | |
| Reserved for Trust Activities | | <u>5,342</u> | <u>0</u> |
| | | | |
| TOTAL LIABILITIES AND NET ASSETS | | <u>\$ 5,342</u> | <u>\$ 234,116</u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

| | <u>PRIVATE PURPOSE TRUST FUNDS</u> |
|---------------------------------------|--|
| <u>ADDITIONS</u> | |
| Earnings on Investments and Deposits | \$ 638 |
| <u>DEDUCTIONS</u> | |
| Scholarships Awarded | <u>300</u> |
| CHANGE IN NET ASSETS | 338 |
| <u>NET ASSETS</u> - Beginning of Year | <u>5,004</u> |
| <u>NET ASSETS</u> - End of Year | <u><u>\$ 5,342</u></u> |

The notes to the financial statements are an integral part of this statement.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Crawford AuSable School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Crawford AuSable School District (the "School District") is located in Crawford, Kalkaska and Otsego Counties with its administrative offices located at 1135 N. Old 27, Grayling, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,907 students in elementary, middle, high school, and special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *food service fund* accounts for revenue sources that are legally restricted to food service activities.

The *capital projects fund* is used to account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its athletic activities and bookstore/concessions in the special revenue funds.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The School District maintained debt service funds during the year for bond issues at 2001, 2003, 2005, 2006 and Durant Bonds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for contributions earmarked for scholarships available to qualifying students of the District.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006. For fiscal year ended June 30, 2007, the per pupil foundation allowance was \$7,085 for Crawford AuSable Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).
- (e) Certificates of deposit or share certificates of state or federal credit unions organized and authorized to operate in this state.
- (f) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- (g) United States government or federal agency obligation repurchase agreements.
- (h) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (i) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- (j) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a School District.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two (2) years of the date of purchase. The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1, and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

| <u>Fund</u> | <u>Mills</u> |
|--|--------------|
| General Fund - Non-homestead | 17.8867 |
| 2001 Debt Service Fund - Homestead and non-homestead | 1.270 |
| 2003 Debt Service Fund - Homestead and non-homestead | 2.010 |
| 2005 Debt Service Fund - Homestead and non-homestead | 0.840 |
| 2006 Debt Service Fund - Homestead and non-homestead | 0.080 |

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventories in the general and special revenue funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-55 years |
| Furniture and other equipment | 5-20 years |
| Buses and vehicles | 5-10 years |

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

It is the District's policy to permit employees to accumulated earned but unused sick pay and comp time benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortization of premiums, discounts and bond issuance costs, prospectively for all bonds issued after July 1, 2002.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds. All annual appropriations lapse at fiscal year-end.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 19, 2006, or as amended by the School Board of Education on June 18, 2007.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

General Fund – Basic Instruction expenditures of \$7,450,167 exceeded appropriations of \$7,420,613 by \$29,554.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

The District's deposits and investments are all on deposit with banks within the District and Michigan School District Liquid Asset Fund Plus.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$2,533,751 of the government's bank balance of \$3,393,697 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, all of the District's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds

\$ 11,163

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2007, the fair value of the District’s investments is the same as the value of the pool shares.

B. Receivables

Receivables as of year end for the government’s individual major fund and nonmajor, and fiduciary funds are as follows:

| | General | Food Service | Nonmajor and Other Funds | Total |
|--------------------------|--------------------|-------------------|--------------------------------|--------------------|
| Receivables | | | | |
| Taxes | \$ 6,910 | \$ 0 | \$ 2,605 | \$ 9,515 |
| Accounts | 254,952 | 41,290 | 0 | 296,242 |
| Other Governmental Units | 1,492,129 | 74,675 | 0 | 1,566,804 |
| Total Receivables | <u>\$1,753,991</u> | <u>\$ 115,965</u> | <u>\$ 2,605</u> | <u>\$1,872,561</u> |

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | Unavailable | Unearned |
|--|-------------|-----------------|
| Grant Receipts Received, But Not Yet Utilized | \$ 0 | \$ 871 |
| Balance on Student Debit Cards | 0 | 3,169 |
| Total Deferred/Unearned Revenue for Governmental Funds | <u>\$ 0</u> | <u>\$ 4,040</u> |

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

C. Capital Assets

A summary of changes in the District's capital assets follows:

| | Balance July 1, 2006 | Additions | Deletions | Balance June 30, 2007 |
|------------------------------------|-------------------------|------------|-----------|--------------------------|
| Assets not being depreciated | | | | |
| Construction in Progress | \$ 0 | \$ 197,679 | \$ 0 | \$ 197,679 |
| Other Capital assets: | | | | |
| Buildings and additions | 28,417,843 | 7,404 | 19,419 | 28,405,828 |
| Machinery and equipment | 2,708,497 | 43,631 | 0 | 2,752,128 |
| Transportation equipment | 1,441,165 | 288,757 | 19,985 | 1,709,937 |
| Subtotal | 32,567,505 | 339,792 | 39,404 | 32,867,893 |
| Less Accumulated depreciation for: | | | | |
| Buildings and additions | (7,771,464) | (280,958) | 15,644 | (8,036,778) |
| Machinery and equipment | (1,675,009) | (91,234) | 0 | (1,766,243) |
| Transportation equipment | (1,114,758) | (67,984) | 0 | (1,182,742) |
| Accumulated depreciation | (10,561,231) | (440,176) | 15,644 | (10,985,763) |
| Net other capital assets | 22,006,274 | (100,384) | 23,760 | 21,882,130 |
| Net Capital assets | \$22,006,274 | \$ 97,295 | \$ 23,760 | \$ 22,079,809 |

Depreciation for the fiscal year ended June 30, 2007 amounted to \$440,176. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Construction Commitments – At June 30, 2007, the District had uncompleted active contracts totaling \$610,820 which will be paid out of the 2006 Building and Site Capital Projects Fund in the future.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The following is a summary of the Long-Term Debt transactions for the School District for the year ended June 30, 2007:

| | GENERAL OBLIGATION SERIAL BONDS | DURANT SCHOOL IMPROVEMENT BONDS | ACCUMULATED SICK PAY AND RETIREMENT INCENTIVE | TOTAL |
|--------------------------------|---------------------------------------|--|--|---------------|
| Long-Term Debt at July 1, 2006 | \$ 20,595,000 | \$ 127,900 | \$ 1,476,620 | \$ 22,199,520 |
| Increase in Debt | 0 | 0 | 9,233 | 9,233 |
| Reductions in Debt | (1,205,000) | 0 | (33,470) | (1,238,470) |
| LONG-TERM DEBT | | | | |
| AT JUNE 30, 2007 | \$ 19,390,000 | \$ 127,900 | \$ 1,452,383 | \$ 20,970,283 |
| Due Within One Year | \$ 1,300,000 | \$ 0 | \$ 180,732 | \$ 1,480,732 |

At June 30, 2007, the School District's long-term debt consisted of the following:

| | |
|---|------------|
| 1998 School Improvement Bond (Durant); due in annual installments of \$11,814 to \$77,401 through May 15, 2013; average interest rate of 4.45%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds. | \$ 127,900 |
| 2001 School Building and Site Bonds; due in annual installments of \$500,000 to \$750,000 through May 1, 2012; average interest rate of 4.83%. At the School District's option, bonds can be redeemed on or after May 1, 2012, prior to maturity. | 3,100,000 |
| 2003 Refunding Bonds; due in annual installments of \$655,000 to \$740,000 through May 1, 2015; average interest rate of 3.14%. At the School District's option, bonds can be redeemed on or after May 1, 2013, prior to maturity. | 5,615,000 |
| 2005 Refunding Bonds; due in annual installments of \$25,000 to \$1,145,000 beginning May 1, 2009 through May 1, 2021; average interest rate of 4%. At the School District's option, bonds can be redeemed on or after May 1, 2015, prior to maturity. | 9,680,000 |

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

2006 School Buildings and Site Bonds; due in annual installments of \$60,000 to \$220,000 through May 1, 2016; plus interest at 3.7% to 4.2%. At the School District's option, bonds can be redeemed on or after May 1, 2016, prior to maturity.

| | |
|--|----------------------------|
| | <u>995,000</u> |
| Total general obligation bonds payable | 19,517,900 |
| Accumulated leave liability | 127,229 |
| Early retirement incentives | <u>1,325,155</u> |
| Total long-term debt | <u><u>\$20,970,284</u></u> |

The annual requirements to amortize all debt outstanding as of June 30, 2007, including interest payments of \$5,879,007 are as follows:

| <u>Year Ending June 30,</u> | <u>Bonds</u> | | <u>Retirement Incentive</u> | | <u>Amount</u> |
|-----------------------------|---------------------|--------------------|-----------------------------|-----------------|----------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Payable</u> |
| 2008 | \$ 1,300,000 | \$ 794,815 | \$ 180,732 | \$ 0 | \$ 2,275,547 |
| 2009 | 1,447,401 | 769,046 | 239,190 | 0 | 2,455,637 |
| 2010 | 1,461,814 | 705,772 | 222,674 | 0 | 2,390,260 |
| 2011 | 1,532,339 | 649,540 | 173,506 | 0 | 2,355,385 |
| 2012 | 1,602,887 | 588,439 | 147,684 | 0 | 2,339,010 |
| 2013-2017 | 7,628,459 | 1,890,529 | 361,369 | 0 | 9,880,357 |
| 2018-2021 | 4,545,000 | 480,866 | 0 | 0 | 5,025,866 |
| | <u>\$19,517,900</u> | <u>\$5,879,007</u> | <u>\$1,325,155</u> | <u>\$ 0</u> | <u><u>\$26,722,062</u></u> |
| Accumulated Sick Pay | | | | | <u>127,229</u> |
| | | | | | <u><u>\$26,849,291</u></u> |

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the employees will use the sick leave. The General Fund will generally liquidate accumulated sick pay.

E. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2007, were:

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

| | <u>INTERFUND RECEIVABLES</u> | <u>INTERFUND PAYABLES</u> |
|------------------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 103,398 | \$ 0 |
| School Service Fund - Food Service | 0 | 121,014 |
| School Service Fund - Athletics | 0 | 9,724 |
| Debt Service Fund - 2001 Debt | 70,379 | 0 |
| Debt Service Fund - 2003 Debt | 0 | 25,070 |
| Debt Service Fund - 2005 Debt | 0 | 18,299 |
| Concessions Fund | 330 | 0 |
| | <hr/> | <hr/> |
| | \$ 174,107 | \$ 174,107 |
| | <hr/> | <hr/> |

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2007, are expected to be repaid within one year.

Interfund transfers as shown in the individual fund financial statements at June 30, 2007, were:

| | <u>TRANSFERS IN</u> | <u>TRANSFERS OUT</u> |
|--|-------------------------|--------------------------|
| General Fund | \$ 0 | \$ 226,344 |
| School Service Fund - Athletic Activities Fund | 170,894 | 0 |
| School Service Fund - Food Service Fund | 56,230 | 0 |
| Concessions Fund | 0 | 780 |
| | <hr/> | <hr/> |
| | \$ 227,124 | \$ 227,124 |
| | <hr/> | <hr/> |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Leases

The rental expense for the year ended June 30, 2007, totaled \$61,394 respectively.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

| <u>YEAR ENDING</u> | <u>PAYABLES</u> |
|--------------------|-------------------|
| 2008 | \$ 61,394 |
| 2009 | 60,008 |
| 2010 | <u>22,435</u> |
| | <u>\$ 143,837</u> |

G. Designated and Reserved Fund Balance

The School has designated and reserved fund balances as follows:

1. Food Service and Athletic Activities

The School's policy is to show fund balance of the Food Service Fund and Athletic Activities Fund as designated for those purposes.

2. Debt Service

The entire fund balances of the Debt Service Funds are reserved for debt service.

3. Inventory

The General Fund Balance and Food Service Fund Balance are reserved for inventories to emphasize that these amounts are not appropriable for other purposes.

4. Prepaid Expenditures

The District reserves fund balance for Prepaid Expenditures in accordance with generally accepted accounting principles.

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 16.34% of payroll through September 2006, and 17.74% effective October 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$1,496,271, \$1,467,740 and \$1,341,710 respectively, and were equal to the required contribution for those years.

Other Post Employment Benefits Funding Policy

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

C. Capital Projects Expenditures

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the school district has complied with the applicable provisions of Section 1351(a) of the Revised School Code.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2007

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
|--|--------------------|-----------------|--------------|
| <u>REVENUES</u> | | | |
| Local Sources | \$ 5,182,607 | \$ 5,295,000 | \$ 5,359,393 |
| Intermediate Sources | 42,137 | 46,944 | 49,293 |
| State Sources | 9,226,748 | 9,651,936 | 9,653,952 |
| Federal Sources | 1,144,260 | 1,140,772 | 1,136,210 |
| Total Revenues | 15,595,752 | 16,134,652 | 16,198,848 |
| <u>EXPENDITURES</u> | | | |
| Instruction | | | |
| Basic Instruction | 7,265,696 | 7,420,613 | 7,450,167 |
| Added Needs | 1,948,260 | 2,095,627 | 2,074,315 |
| Adult and Continuing Education | 74,080 | 76,103 | 71,563 |
| Supporting Services | | | |
| Pupil | 935,288 | 935,041 | 853,448 |
| Instructional Staff | 620,631 | 598,139 | 592,099 |
| General Administration | 262,736 | 256,973 | 237,781 |
| School Administration | 982,200 | 997,221 | 975,005 |
| Business | 423,177 | 425,826 | 404,205 |
| Operating and Maintenance | 1,776,221 | 1,824,895 | 1,743,031 |
| Pupil Transportation | 887,173 | 897,350 | 897,295 |
| Central | 380,167 | 436,555 | 431,410 |
| Other | 98,154 | 109,707 | 82,982 |
| Community Services | 1,700 | 9,398 | 8,635 |
| Payments to Other Governments | 65,000 | 0 | 0 |
| Total Expenditures | 15,720,483 | 16,083,448 | 15,821,936 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (124,731) | 51,204 | 376,912 |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Transfers Out | (190,700) | (246,994) | (226,344) |
| Sale of Fixed Assets | 0 | 70,481 | 70,481 |
| Total Other Financing Sources (Uses) | (190,700) | (176,513) | (155,863) |
| Net Change in Fund Balance | (315,431) | (125,309) | 221,049 |
| <u>FUND BALANCE</u> - Beginning of Year | 2,082,872 | 2,427,824 | 2,427,824 |
| <u>FUND BALANCE</u> - End of Year | \$ 1,767,441 | \$ 2,302,515 | \$ 2,648,873 |

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2007

| | <u>SPECIAL REVENUE FUNDS</u> | | <u>DEBT RETIREMENT FUNDS</u> | | | | <u>TOTAL</u> |
|--|------------------------------|--------------------|------------------------------|-------------------|------------------|-------------------|---------------------|
| | <u>ATHLETIC</u> | <u>CONCESSIONS</u> | | <u>2003</u> | <u>2005</u> | | <u>NONMAJOR</u> |
| | <u>FUND</u> | <u>FUND</u> | <u>2001 BONDS</u> | <u>REFUNDING</u> | <u>REFUNDING</u> | <u>2006 BONDS</u> | <u>GOVERNMENTAL</u> |
| | | | | <u>BONDS</u> | <u>BONDS</u> | | <u>FUNDS</u> |
| <u>ASSETS</u> | | | | | | | |
| Cash and Cash Equivalents | \$ 18,528 | \$ 0 | \$ 70,728 | \$ 138,131 | \$ 55,385 | \$ 3,494 | \$ 286,266 |
| Taxes Receivable | 0 | 0 | 579 | 1,619 | 367 | 40 | 2,605 |
| Due from Other Funds | 0 | 330 | 70,379 | 0 | 0 | 0 | 70,709 |
| TOTAL ASSETS | \$ 18,528 | \$ 330 | \$ 141,686 | \$ 139,750 | \$ 55,752 | \$ 3,534 | \$ 359,580 |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | | | | |
| <u>LIABILITIES</u> | | | | | | | |
| Due to Other Funds | \$ 9,724 | \$ 0 | \$ 0 | \$ 25,070 | \$ 18,299 | \$ 0 | \$ 53,093 |
| <u>FUND BALANCE</u> | | | | | | | |
| Reserved for Debt Service | 0 | 0 | 141,686 | 114,680 | 37,453 | 3,534 | 297,353 |
| Unreserved, Designated for, reported in: | | | | | | | |
| Special Revenue Funds | 8,804 | 330 | 0 | 0 | 0 | 0 | 9,134 |
| Total Fund Balances | 8,804 | 330 | 141,686 | 114,680 | 37,453 | 3,534 | 306,487 |
| TOTAL LIABILITIES | | | | | | | |
| AND FUND BALANCES | \$ 18,528 | \$ 330 | \$ 141,686 | \$ 139,750 | \$ 55,752 | \$ 3,534 | \$ 359,580 |

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2007

| | SPECIAL REVENUE FUNDS | | DEBT RETIREMENT FUNDS | | | | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--|-----------------------|---------------------|-----------------------|----------------------------|----------------------------|------------|--|
| | ATHLETIC FUND | CONCESSIONS FUND | 2001 BONDS | 2003 REFUNDING BONDS | 2005 REFUNDING BONDS | 2006 BONDS | |
| <u>REVENUES</u> | | | | | | | |
| Local Sources | | | | | | | |
| Property Taxes | \$ 0 | \$ 0 | \$ 586,059 | \$ 927,998 | \$ 387,540 | \$ 37,697 | \$ 1,939,294 |
| Earnings on Investments and Deposits | 1,414 | 0 | 14,587 | 22,451 | 7,347 | 416 | 46,215 |
| Other Local Sources | 87,496 | 20,517 | 0 | 0 | 0 | 0 | 108,013 |
| Total Revenues | 88,910 | 20,517 | 600,646 | 950,449 | 394,887 | 38,113 | 2,093,522 |
| <u>EXPENDITURES</u> | | | | | | | |
| Athletic Activities | 287,092 | 0 | 0 | 0 | 0 | 0 | 287,092 |
| Concessions | 0 | 19,507 | 0 | 0 | 0 | 0 | 19,507 |
| Debt Service | 0 | | | | | | |
| Principal | 0 | 0 | 450,000 | 755,000 | 0 | 0 | 1,205,000 |
| Interest | 0 | 0 | 155,188 | 214,823 | 421,244 | 34,279 | 825,534 |
| Other Expenses | 0 | 0 | 47 | 300 | 244 | 300 | 891 |
| Total Expenditures | 287,092 | 19,507 | 605,235 | 970,123 | 421,488 | 34,579 | 2,338,024 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (198,182) | 1,010 | (4,589) | (19,674) | (26,601) | 3,534 | (244,502) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | | | |
| Transfers In (Out) | 170,894 | (780) | 0 | 0 | 0 | 0 | 170,114 |
| Net Change in Fund Balance | (27,288) | 230 | (4,589) | (19,674) | (26,601) | 3,534 | (74,388) |
| <u>FUND BALANCE - Beginning of Year</u> | 36,092 | 100 | 146,275 | 134,354 | 64,054 | 0 | 380,875 |
| <u>FUND BALANCE - End of Year</u> | \$ 8,804 | \$ 330 | \$ 141,686 | \$ 114,680 | \$ 37,453 | \$ 3,534 | \$ 306,487 |

CRAWFORD AUSABLE SCHOOL DISTRICT

GRAYLING, MICHIGAN

SINGLE AUDIT

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2007

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August 22, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

COMPLIANCE

We have audited the compliance of Crawford AuSable School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Crawford AuSable School Districts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Crawford AuSable School Districts' management. Our responsibility is to express an opinion on Crawford AuSable School Districts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Crawford AuSable School Districts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Crawford AuSable School Districts' compliance with those requirements.

In our opinion, Crawford AuSable School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Crawford AuSable School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Crawford AuSable School Districts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the district's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the district's internal control.

Our consideration of the internal control over compliance was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crawford AuSable School District as of and for the year ended June 30, 2007, and have issued our report thereon dated August 22, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Crawford AuSable School Districts' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER | FEDERAL CFDA NUMBER | APPROVED GRANT AWARD AMOUNT | INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006 | (MEMO ONLY) PRIOR YEAR EXPENDITURES | CURRENT YEAR EXPENDITURES | CURRENT YEAR RECEIPTS (CASH BASIS) | INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007 | ADJUSTMENTS |
|--|---------------------------|-----------------------------------|--|---|------------------------------|--|---|-------------|
| U.S. Department of Education | | | | | | | | |
| Passed Through Michigan Department of Education (M.D.E.) | | | | | | | | |
| Title I Grants to Local Education Agencies | | | | | | | | |
| Project No. 071530-0607 | 84.010 | \$ 517,241 | \$ 0 | \$ 0 | \$ 517,241 | \$ 517,241 | \$ 0 | \$ 0 |
| Title V - LEA Allocation | | | | | | | | |
| Project No. 070250-0607 | 84.298 | 7,390 | 0 | 0 | 7,390 | 7,390 | 0 | 0 |
| Title II D | | | | | | | | |
| Project No. 074290-0607 | 84.318 | 5,310 | 0 | 0 | 5,310 | 5,310 | 0 | 0 |
| Title II A - Improving Teacher Quality | | | | | | | | |
| Project No. 070520-0607 | 84.367 | 152,263 | 0 | 0 | 152,263 | 152,263 | 0 | 0 |
| Drug Free Schools and Communities | | | | | | | | |
| Project No. 072860-0607 | 84.186 | 11,498 | 0 | 0 | 9,627 | 10,498 | (871) | 0 |
| Michigan Community Service Commission-Carryover | | | | | | | | |
| Project No. 30600-36373 | 94.004 | 15,000 | 5,530 | 9,411 | 0 | 5,530 | 0 | 0 |
| Total Passed Through M.D.E. | | 708,702 | 5,530 | 9,411 | 691,831 | 698,232 | (871) | 0 |
| Passed Through COOR Intermediate School District | | | | | | | | |
| Special Education - IDEA Flow Through | | | | | | | | |
| Project No. 070450-0607 | 84.027 | 418,307 | 0 | 0 | 418,307 | 288,195 | 130,112 | 0 |
| Transition Grant | | | | | | | | |
| Project No. 070490-TS | 84.027 | 2,361 | 0 | 0 | 2,361 | 0 | 2,361 | 0 |
| Tech Prep Education | | | | | | | | |
| Project No. 070140-0607 | 84.243 | 4,865 | 0 | 0 | 4,865 | 0 | 4,865 | 0 |
| Total Passed Through ISD | | 425,533 | 0 | 0 | 425,533 | 288,195 | 137,338 | 0 |
| Total U.S. Department of Education | | 1,134,235 | 5,530 | 9,411 | 1,117,364 | 986,427 | 136,467 | 0 |

See accompanying notes

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER | FEDERAL CFDA NUMBER | APPROVED GRANT AWARD AMOUNT | INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006 | (MEMO ONLY) PRIOR YEAR EXPENDITURES | CURRENT YEAR EXPENDITURES | CURRENT YEAR RECEIPTS (CASH BASIS) | INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007 | ADJUSTMENTS |
|---|---------------------------|-----------------------------------|--|---|------------------------------|--|---|-------------|
| U.S Department of Agriculture | | | | | | | | |
| Passed Through Michigan Department of Education (M.D.E.) | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | |
| National School Lunch Program | | | | | | | | |
| Section 4 - Total Servings - 061950 and 071950 | 10.555 | 52,617 | 0 | 0 | 52,617 | 44,729 | 7,888 | 0 |
| Section 11 - Total Servings - 061960 and 071960 | 10.555 | 292,401 | 0 | 0 | 292,401 | 247,820 | 44,581 | 0 |
| Total | | 345,018 | 0 | 0 | 345,018 | 292,549 | 52,469 | 0 |
| National School Lunch Breakfast Program | | | | | | | | |
| National School Lunch Breakfast - 061970 and 071970 | 10.553 | 85,047 | 0 | 0 | 85,047 | 70,648 | 14,399 | 0 |
| Summer Food Service Program | | | | | | | | |
| Summer Food Meals 060900, 061900, and 070900 | 10.559 | 8,885 | 2,438 | 5,093 | 8,885 | 11,025 | 298 | 0 |
| Total Child Nutrition Cluster | | 438,950 | 2,438 | 5,093 | 438,950 | 374,222 | 67,166 | 0 |
| Food Distribution | | | | | | | | |
| Entitlement Commodities | 10.550 | 33,812 | 0 | 0 | 33,812 | 33,812 | 0 | 0 |
| Bonus Commodities | 10.550 | 170 | 0 | 0 | 170 | 170 | 0 | 0 |
| Total | | 33,982 | 0 | 0 | 33,982 | 33,982 | 0 | 0 |
| Total Passed Through M.D.E. | | 472,932 | 2,438 | 5,093 | 472,932 | 408,204 | 67,166 | 0 |
| Total U.S. Department of Agriculture | | 472,932 | 2,438 | 5,093 | 472,932 | 408,204 | 67,166 | 0 |
| U.S Department of Interior - Other Federal Assistance | | | | | | | | |
| Passed Through County | | | | | | | | |
| Payment in Lieu of Taxes | | | | | | | | |
| Schools and Roads Grant | 10.665 | 18,846 | 0 | 0 | 18,846 | 18,846 | 0 | 0 |
| Total U.S. Department of Interior - Other Federal Assistance | | 18,846 | 0 | 0 | 18,846 | 18,846 | 0 | 0 |
| Total Federal Financial Assistance | | \$ 1,626,013 | \$ 7,968 | \$ 14,504 | \$ 1,609,142 | \$ 1,413,477 | \$ 203,633 | \$ 0 |

See accompanying notes

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2007, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

| | |
|---|---------------------|
| Revenues from Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance | \$ <u>1,609,142</u> |
|---|---------------------|

| | |
|---|---------------------|
| Federal Expenditures per Schedule of Expenditures of Federal Awards | \$ <u>1,609,142</u> |
|---|---------------------|

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

| | |
|--|--------------|
| Current Cash Payments per Cash Management System (CMS) | \$ 1,405,452 |
|--|--------------|

Add Items Not on CMS Report:

| | | |
|--|------------|---------|
| Amounts Received Through Intermediate School District Special Education IDEA | \$ 288,195 | |
| Amounts Received as Pass Through From Michigan Department of Education Michigan Community Service Commission | 5,530 | |
| Amounts Received Through County Schools and Roads – National Forest Land | 18,846 | |
| Amounts Received as Payments in Kind Food Distribution Program Entitlement Commodities | 33,812 | |
| Bonus Commodities | <u>170</u> | 346,553 |

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Amounts reported on 6/30/07 R7120 Grant Section Auditors

Report not recorded on CMS Grant Auditor Report

| | | | |
|-----------------------------------|----|---------------|---------|
| Summer Food Service Program | \$ | 11,025 | |
| Child Nutrition Cluster | | | |
| National School Lunch Program | | 345,018 | |
| National School Breakfast Program | | <u>85,047</u> | 441,090 |

Less Timing Differences

Payments received in July 2007 but included

On June 2007 R7120

| | | |
|---------------------------------|-----------------|----------|
| National School Lunch Breakfast | (14,399) | |
| Section 4 Lunches | (7,888) | |
| Section 11 Free and Reduced | <u>(44,581)</u> | (66,868) |

Reconciliation of errors on new CMS Report

| | | |
|--|-----------------|------------------|
| Title II D 062490-0506 | (9,649)) | |
| Safe and Drug Free Schools 062860-0506 | (15,870) | |
| Title I 061530-0506 | (517,241) | |
| Title II A 060520-0506 | (154,129) | |
| Title V 060250-0506 | <u>(15,861)</u> | <u>(712,750)</u> |

\$ 1,413,477

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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August 22, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crawford AuSable School District as of and for the year ended June 30, 2007, which collectively comprise the Crawford AuSable School Districts' basic financial statements, and have issued our report thereon dated August 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Crawford AuSable School Districts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Crawford AuSable School District, Grayling, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Crawford AuSable School District, Grayling, Michigan's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of the internal control over financial reporting was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Crawford AuSable School Districts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Crawford AuSable School District in a separate letter dated August 22, 2007.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINDINGS

None

CRAWFORD AUSABLE SCHOOL DISTRICT
GRAYLING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Significant deficiencies identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Significant deficiencies identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.027 | Special Education-IDEA Flow Through |
| 84.027 | Special Education-Transition Grant |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Baird, Cotter and Bishop, P.C.

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August 22, 2007

To the Board of Education
Crawford AuSable School District
Grayling, Michigan

As a result of our audit of the financial statements of Crawford AuSable School District for the year ended June 30, 2007, we would like to comment on the following items relative to the management and accounting records and procedures of the School District.

Internal Account Activities

During our audit, it came to our attention that the internal controls over cash related to the AuSable Primary Internal Accounts were not functioning properly. The bank reconciliations were not completed timely and not completed accurately. Furthermore, the individual in charge of reviewing the bank reconciliations at the building level apparently did not flag this as a problem during the year. For internal controls to function properly, each person within the control structure has a responsibility to alert the appropriate personnel when it appears the controls are not functioning as intended. In this case, the person responsible for doing the bank reconciliations should have asked for help when the reconciliations did not work. Also the person reviewing the bank reconciliations should have alerted the business office that the reconciliations were not being performed timely. We recommend that the District should attempt to follow its written procedures related to Internal Activities because we believe those procedures to be important to the internal control structure. Also, the District should consider modifying procedures if necessary in order to prevent this occurrence from happening in the future.

Sales Tax

During our test of controls over cash disbursements, we observed instances of the District paying sales tax. The District is exempt from sales tax in most cases, and care should be taken to purchase items sales tax free, where allowed. In discussing this point with management, the District indicated that this has been a point of emphasis since May 2007, and procedures were implemented then to correct this situation. For 2007-2008 we will test the implementation of the new procedures to determine their effectiveness.

Headlee Millage Rollback

The passage of the millage which restores the District's ability to levy its full 18 mills will save the District more than \$31,000 next year. For 2006-2007 the amount lost as a result of the Headlee Rollback was approximately \$31,000.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the District, and to the administration and staff for their assistance in helping us complete this audit assignment. If you have any questions relative to the preceding comments and recommendations or any other area of concern, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.